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SEPTEMBER 2026







HEDGEWEEK®



GETTING INSTITUTIONAL

STATE OF DIGITAL ASSETS IN HEDGE FUNDS 2026

EXECUTIVE SUMMARY

By almost every market measure, 2026 has been a wait and watch year for digital assets. By almost every measure for those hedge funds trading it, it has not.

The case for waiting is strong. Just this month, the Digital Asset Market Clarity Act failed in the US Senate, losing a procedural vote 49 to 50 against the 60 required, which pushes market structure legislation into 2027 at the earliest. Bitcoin slipped below $76,000 on the news and is down roughly 35% over the year.

So it shouldn't come as a surprise that even though digital assets have institutionalised substantially, most hedge fund managers still have not allocated to them. 55% report no current plans at all and a further 10% are exploring without having committed capital. Though it must be said that the share of managers with some exposure to digital assets is rising year-on-year.

The reasons for the "wait and watch" approach are not the ones that many assume. Reputational concern was cited by only 8% of respondents. What managers actually say is that digital assets sit outside what their fund is for: 34% of all respondents, and more than half of those who gave a reason at all, simply do not wish to go beyond their core offering. Behind that sit operational readiness, compliance constraints and a wish for greater market maturity. This is a positioning decision, not a verdict on crypto, and it changes how the opportunity should be sized.

Then there are the managers already in. For them the picture inverts. Appetite rose for 64% over the past 12 months and fell for none. What has stopped working is passive exposure: ETF beta is commoditised and returns now have to be manufactured. The obvious trades have compressed with it, and the search for alpha has moved into instruments and structures that are considerably harder to run.

The report below, our yearly look at the state of the digital asset fund universe, looks at what those managers are running, where they think the next alpha sits, and whether their operational infrastructure is holding up. On the last of those, the answer they give when asked directly is not quite the answer the data gives. The lines between traditional hedge funds and digital asset managers are blurring throughout. Phillip Silitschanu, senior vice president for sales and partnerships in digital assets at Arcesium, argues that convergence is already under way, and not because digital assets are becoming just like traditional ones. It is because the underlying infrastructure problem is the same problem, only more complex, and paying twice to solve it separately makes no sense.

Whether you run a digital asset book, are curious but have not yet dipped a toe in, or remain unconvinced the asset class belongs in a hedge fund at all, this report is written for you.

MANAS PRATAP SINGH
HEAD OF RESEARCH HEDGEWEEK®

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METHODOLOGY

Fieldwork ran through 2026, with over 100 hedge fund manager responses. Respondents were headquartered predominantly in Europe (58%) and North America (28%), and 65% managed under $500m. Questions covering firm profile, digital asset exposure and reasons for not allocating were put to all respondents. Questions covering strategies, instruments, operational barriers, infrastructure confidence and near-term opportunity were routed only to managers reporting digital asset exposure, and percentages on those questions are calculated on that group. Chart 7 permitted multiple answers, so its percentages sum above 100. The report also draws on interviews conducted in September 2026.

CHART 1: FIRM HEADQUARTERS

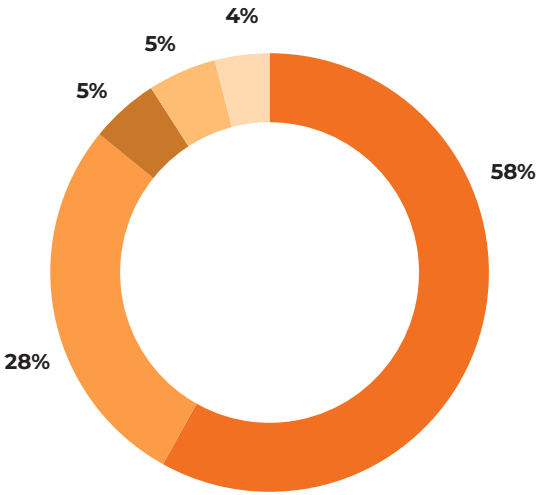


CHART 2: FLAGSHIP HEDGE FUND STRATEGY

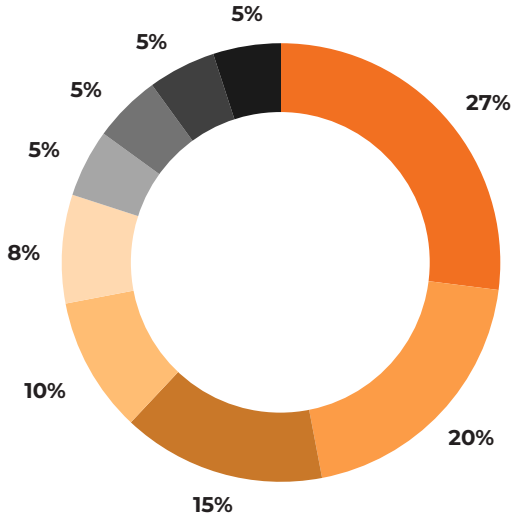
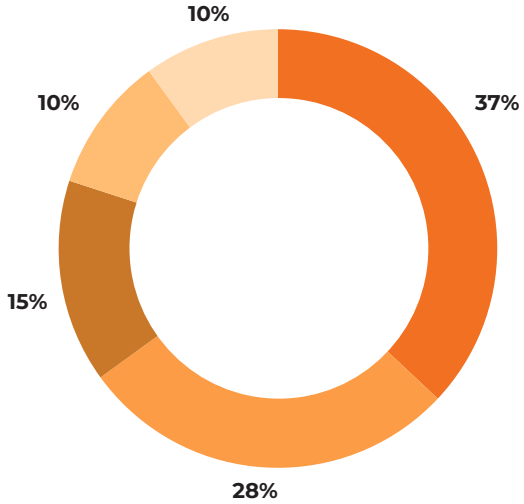


CHART 3: ASSETS UNDER MANAGEMENT



PART I: WHY MOST HEDGE FUNDS STILL SAY ‘NO’

Institutionalisation has not translated into allocation



Digital assets have spent two years becoming, as many headlines suggest, "institutionalised". Spot ETFs are now established products, custody and prime brokerage have matured, tokenised collateral is live at major banks and the regulatory perimeter is being drawn in Washington and beyond. But that has yet to persuade the majority of hedge fund managers to take a position.

55% report no current plans to allocate, and a further 10% are exploring without having committed capital (Chart 4). The proportion with some exposure is rising against last year's data, but the movement is incremental rather than a step change.

IT IS NOT REPUTATION, AND IT IS CERTAINLY NOT SKILL

The interesting part is why. For most of the past decade, the assumed barriers were headline risk and a shortage of people who understood the asset class. But neither shows up as an issue for most fund managers in the 'wait and watch' mode.

Reputational concern was cited by just 8% of respondents (Chart 6). Lack of internal expertise was cited by nobody at all, at any firm size or in any region, which is striking given it is the easiest answer for a manager to give and the one that costs least to admit.

What managers say instead is that digital assets sit outside what their fund is for. Over a third of all respondents chose that answer, rising to more than half among those who gave a substantive reason rather than marking the question not applicable. Behind it sit risk and compliance constraints at 8%, operational and infrastructure readiness at 5% and a wish for greater market maturity at a further 5%. One respondent described looking for the right fit in terms of both strategy and the external manager's operations and compliance framework.

The distinction matters. Capability is a temporary condition. A core offering is meant to be a permanent one, except the definition is drifting: tokenised money market funds and tokenised credit look less like crypto and more like adjacent versions of what traditional managers already run. The largest group of abstainers has drawn a line around their fund that the asset class is quietly crossing. The smaller groups citing operational readiness and market maturity will move first, because time and infrastructure change both.

ALLOCATORS SORT FUNDS BEFORE THEY ASSESS THEM

There is a structural reason why adding digital assets is harder for a traditional manager than the strategy case alone suggests, and it sits on the allocator side.

"Allocators work from allocation pockets," says Khalid Mazouz, co-founder and chief investment officer of M55 Capital. A fund is assigned to a pocket by its asset class before its strategy is examined. Two systematic funds with comparable risk controls land in different pockets and are measured against different

Chart 4 Current exposure to digital assets

A small number of respondents selected more than one option.

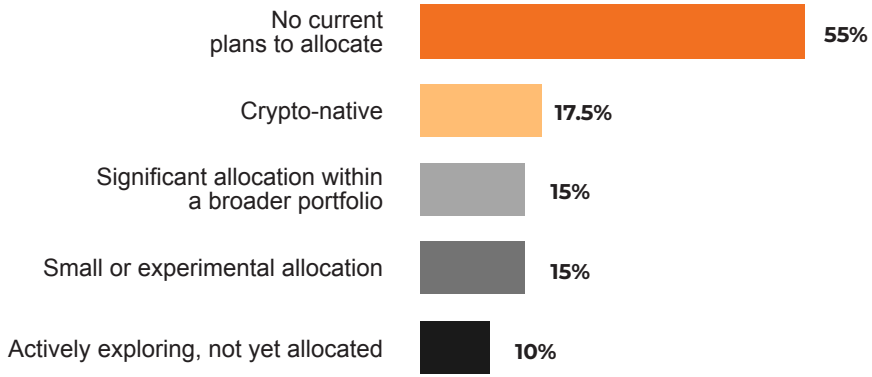
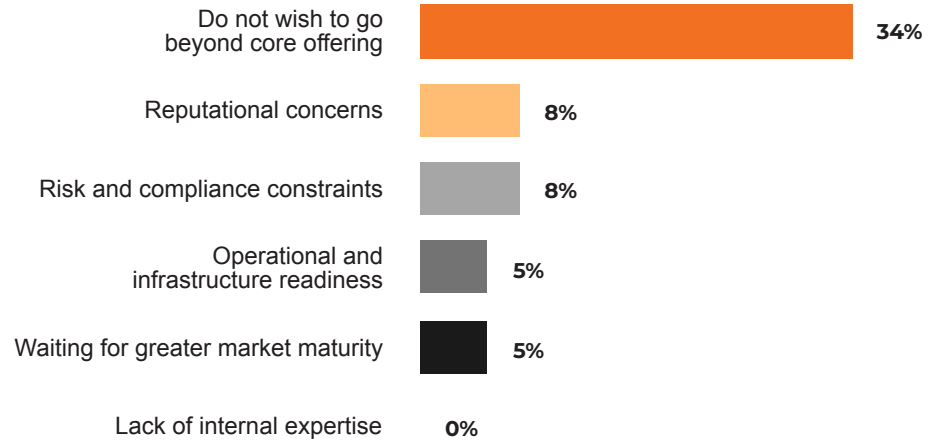


Chart 6 Primary barrier to allocating to digital assets



peer groups purely because of what they trade. "The asset class does dictate which risks a manager has to control. It doesn't dictate the risk profile the fund delivers."

For an equity long/short manager weighing a digital asset sleeve, that is a real cost. The sleeve may not improve how the fund is categorised, and it definitely complicates how it is diligenced.

PROGRESS WITHOUT PRICE

None of which means engagement is stalling. It means engagement and price have decoupled.

"A widening gap between market sentiment and progress in the underlying technology is creating a compelling opportunity for selective investors," says Chris Rayner-Cook, chief investment officer of Brevan Howard Digital. "Despite subdued crypto sentiment, infrastructure continues to mature, institutional applications are becoming more tangible and the investable universe is broadening."

He points to ICE's investment in OKX in March, alongside the tokenised collateral and settlement work under way at major financial institutions, and draws a distinction that matters for how this cycle is read: "In previous cycles, institutional engagement tended to accelerate alongside rising prices. This time, strategic investment is advancing against a weaker market backdrop."

The quality of allocator conversation has moved with it. "In 2023 and 2024, the question was, why should I care," says Raghav Chopra, co-founder and managing partner of Tephra Digital. "Now it isn't even a question of should I be involved. It's just time and size."

Paul Howard, senior director at Wincent, frames the progression as three distinct years. In 2024 the conversation was about whether to be in the asset class at all. In 2025 it was about how to access it, which produced ETFs and digital asset treasury companies. In 2026 it is about optimising those positions for yield, and the questions have changed with it: how much counterparty risk to accept, what can be posted as collateral and where to exit a position at 1am on a Saturday when the market is falling.

Adam Haeems, head of asset management at Tesseract Group, offers the counterweight on the market itself, noting that a meaningfully positive real return on government debt raises the bar for an asset generating no cash flow, and cautioning against reading relative strength as a structural break. "Decoupling is a much higher bar," he says.

"In previous cycles, institutional engagement tended to accelerate alongside rising prices. This time, strategic investment is advancing against a weaker market backdrop.

Chris Rayner-Cook,
Chief Investment Officer, Brevan Howard Digital



PHILLIP SILITSCHANU

Senior Vice President Sales and Partnerships, Digital Assets, Arcesium

How has the conversation with hedge fund managers about digital assets changed over the past 12 months? What are they asking you now that they were not asking a year ago?

There is real optimism around US regulatory progress, though the picture is more in motion than resolved. The SEC has moved from talk to action this year, proposing Regulation Crypto Assets on August 18, establishing tailored offering exemptions, a principles-based disclosure regime, and a conditional safe harbor from the "investment contract" definition of a security, alongside a broader 2026 agenda covering offerings, broker-dealer treatment and exchange and ATS structure for tokenised securities. The comment period stays open for 60 days after the Federal Register publication. Managers are watching the agency act unilaterally rather than wait on Congress, and that instinct has now been validated.

The CLARITY Act is for practical purposes, stuck this year, but not permanently stuck. It cleared the House in 2025 and the Senate Banking Committee in May, but the cloture motion to open floor debate failed on September 15 on a 49–50 procedural vote, well short of the 60 needed. The bloc of seven Democrats who spent months negotiating the text (Gillibrand, Warner, Booker, Warnock, Gallego, Alsobrooks and Cortez Masto) all voted no, over unresolved fights on an ethics provision covering digital-asset sponsorship by federal officials, DeFi developer liability, and a yield-ban provision. That outcome sharpens rather than settles the question managers keep asking: agency rules a future SEC could unwind, versus a statute that just showed it can't clear the Senate even with its own negotiators voting against it. With Congress stalled again, the SEC's rulemaking is no longer a hedge against legislative delay; for now, it's the only path forward.

Most inbound volume is still about wanting one unified solution across TradFi and crypto trades and positions, and that has intensified as more traditional books add digital exposure.

The hardest questions have shifted, though. A year ago, it was mostly whether we can even hold this, and custody and counterparty basics. Now the sharpest questions are about perpetuals, crypto lending, RWA tokenisation and prediction markets, instruments that did not have real institutional plumbing a year ago and now do. The CFTC's approval of regulated Bitcoin perpetual futures in May was the clearest marker, pulling hedge funds and family offices into legal perp exposure for the first time. They come with harder operational asks: margining and funding-rate mechanics for perps, collateral and rehypothecation terms for crypto loans, and the dual pricing, custody and settlement burden that RWA tokens carry against spot. Prediction markets are a newer wrinkle: Goldman's July policy bars staff from event contracts tied to companies, elections, financial-market performance, and ceasefire dates, Bitcoin's price and merger approvals (sports and entertainment contracts are still allowed), while the CFTC is simultaneously expanding its footprint, asserting exclusive jurisdiction against state gaming regulators in federal suits filed in April and opening a review of manipulation risk in "mention markets."

Every manager running or seriously considering three or more digital asset strategies named a specific operational barrier. Every manager who said they face no barrier was working across one or two.

What breaks when a manager takes on that third strategy?

That third strategy is where the problem stops being additive and becomes combinatorial. With one or two, a manager can hold it all in their head with a spreadsheet, a specialist and some manual reconciliation. A third introduces too many variables to keep straight by manual means.

Risk needs a unified view. Perps speak funding rates and margin, RWAs speak NAV and accruals, loans speak collateral haircuts. Two languages can be reconciled by hand. Three requires a system that translates all of them into one risk view. Collateral fragments too, siloed across venues with no cross-margining, so nobody has one answer for total collateral at risk. Timelines diverge as well: perps need near-real-time monitoring, RWAs run on periodic cycles, stablecoin yield needs continuous counterparty checks. One clock can flex around a mismatch. Three forces a single cadence to serve both. Reconciliation and exception volumes then outstrip what a team can track without automation.



PHILLIP SILITSCHANU

Senior Vice President Sales and Partnerships, Digital Assets, Arcesium

The barrier is not any one strategy being hard. It is that the connecting infrastructure, meaning unified reporting, collateral management and reconciliation, was never built, because one or two strategies get by on point solutions. Three is where that patchwork stops scaling, and it is evidence the industry has moved from exploring an asset class to building infrastructure for a business line.

Crypto-native managers in this survey are noticeably less confident in their infrastructure than traditional managers running a digital asset sleeve: 43% very confident against 75%. What have the crypto-natives run into that the newer entrants have not met yet?

That inversion makes sense once you separate exposure from experience. Confidence tends to track what you have actually been forced to survive, not what you are running.

Crypto-natives have hit real failure events, and multiple ones: exchange collapses, bridge exploits, chain forks and reorgs, oracle failures and depegs, not as hypotheticals but as things that broke their books. That leaves scar tissue, a concrete sense of everywhere infrastructure can fail, which shows up as lower confidence even when their systems are objectively more mature. They are also disproportionately the managers past the three-strategy threshold, dealing with complexity a single-sleeve TradFi entrant has not encountered yet.

They know how thin the plumbing actually is. Custody, prime brokerage and clearing in crypto are far less standardised than in TradFi, and crypto-natives have had to stitch together their own workarounds, so they know exactly where the single points of failure are. TradFi entrants import old assumptions, that settlement, custody and reporting will just work the way they do in traditional markets, without yet discovering where crypto does not meet that bar. They have also gone through multiple full cycles, including periods where reliable infrastructure and counterparties turned out not to be.

This is not crypto-natives having worse infrastructure. They have stress-tested it enough to know its limits, while TradFi entrants are still confident because they have not yet run into the wall.

Real-time position visibility across chains and venues was the most cited barrier at 23%, and the manager with the widest strategy set in the survey named it as their binding constraint. What makes that harder in digital assets than in a multi-prime traditional book, and how does it show up on a live trading day?

In a multi-prime TradFi book, fragmentation is bounded. A handful of primes report on a shared end-of-day cycle using common reference data. Digital assets break all of that at once.

There is no shared clock: chains finalise at different speeds, exchanges update in real time and DeFi positions change every block, so there is no common as-of timestamp. There is no common data model, since an exchange balance, an on-chain wallet, a perp margin account and an LP position all report state differently with no CUSIP equivalent to normalise them. There is no natural aggregation point either, because where a prime broker aggregates in TradFi, crypto assets sit across exchanges, wallets and contracts with no single party seeing it all. Composability multiplies exposure, as one DeFi position can be collateral in one protocol, borrowed against in another and hedged on a third. And feeds can go silently stale, with congestion, RPC lag and exchange outages desyncing data without obvious warning.

On a random day it looks like this. A token drops sharply. Exchange positions are marked correctly, but on-chain collateral lags a few blocks due to congestion, so true collateralisation looks better than it is. A liquidation hits on-chain before the risk system catches up. Meanwhile a perp hedge on another venue is marked at a different timestamp, so the hedged position looks flat while running real uncaptured exposure. By the time venues resync, the manager has already been liquidated or missed a margin call, not from lacking the position but from lacking a synchronised view of it in the moment.

In TradFi, latency in position visibility is a reporting inconvenience. In digital assets, it is a live risk-management failure.



PART II: INSIDE THE FUNDS THAT ARE ALREADY IN

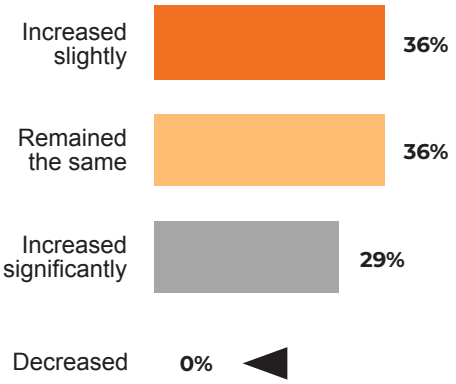
Under the hood of funds trading digital assets

The questions that follow were put only to the managers reporting digital asset exposure. These are the funds that have to find returns in this asset class rather than decide whether to enter it, and their answers describe a different business from the one in section one.

NOBODY IS RETREATING

Appetite for digital assets rose for 64% of them over the past 12 months, 29% significantly, with the rest unchanged and not one reporting any decrease (Chart 5). A 35% drawdown in bitcoin over the year has not moved anyone out.

Chart 5 Change in appetite for digital assets over the past 12 months



What has changed is where the money is made. "Running the basis trade, long spot and short perps, did really well for a long time," says Tushar Jain, managing partner at Multicoin Capital. "Now everyone knows about that trade. We were talking about unlevered 30 to 40% basis returns back then. It doesn't work as well anymore." He reports the same erosion in DeFi farming, and attributes this year's alpha to asset selection instead, helped by greater dispersion between individual tokens. Delta-neutral strategies have suffered from subdued volatility and funding rates.

RUNNING ONE THING, BETTING ON ANOTHER

The survey suggests the industry has not fully repriced that yet. Stablecoin yield is the most widely run or actively considered strategy at 57%, ahead of market-neutral and arbitrage at 50% and directional long/short at 43% (Chart 7). Yet only 15% identify stablecoin yield as the most significant opportunity over the next 12 months (Chart 9).

Chopra is blunt about the appeal and the risk. The collateral is well understood, the model is simple and it looks like passive income. "If you don't know where the yield is coming from, you are the yield," he says, adding that the economics only work at scale. "It's a balance sheet game."

Where these managers actually see the opportunity is tokenisation, at 46%, well ahead of crypto derivatives and structured products at 23%. It is also the only instrument with real

Chart 7 Digital asset strategies run or most actively considered

Multiple answers permitted.

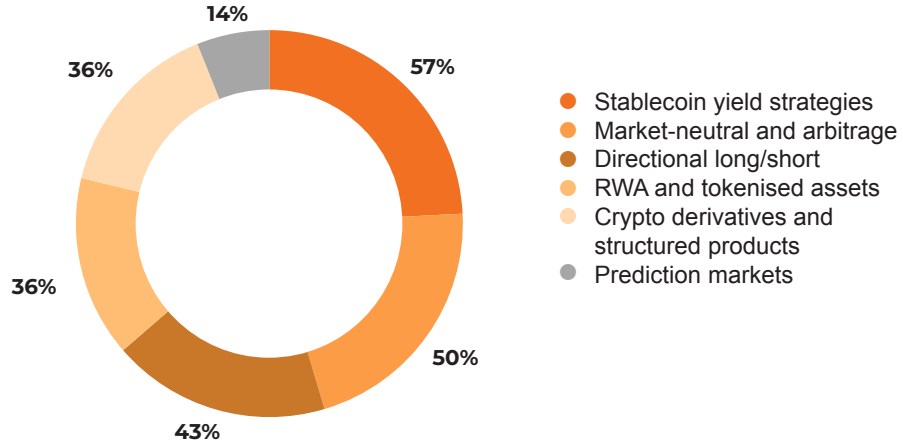
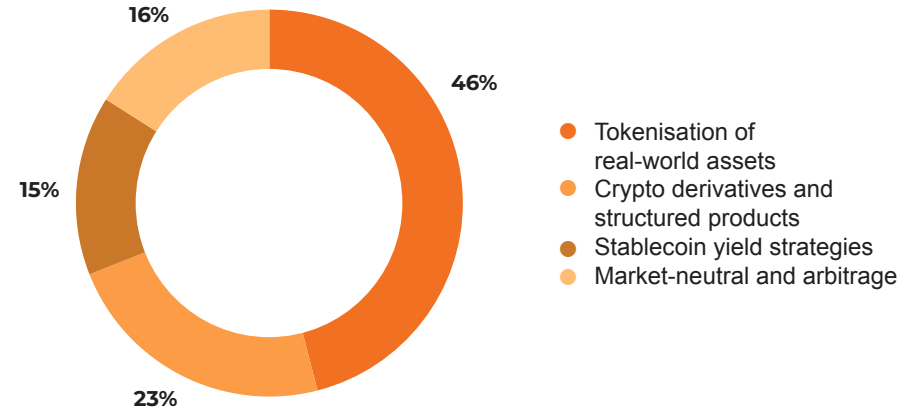


Chart 9 Most significant opportunity over the next 12 months



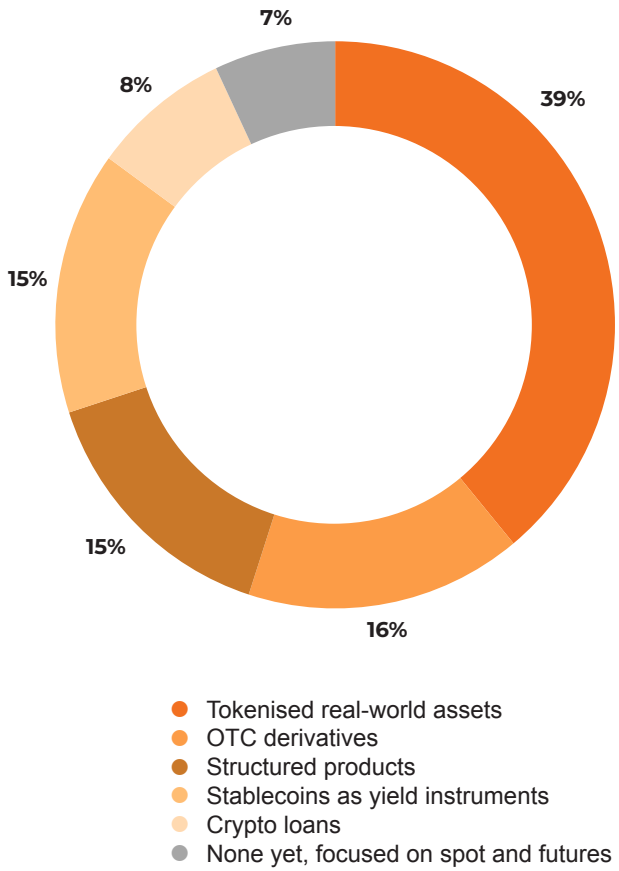
traction beyond spot and futures, named by 38% against 15% each for OTC derivatives, structured products and stablecoins used as yield instruments, and 8% for crypto loans (Chart 8). Prediction markets were named by nobody, on either question.

Howard's explanation for why tokenisation moved first is about the risk committee rather than the market. A tokenised version of an existing product is far easier to explain to a chief risk officer than a structured DeFi product. He expects structured products to follow as institutional adoption matures, starting with tokenised stocks, with options and derivatives after that.

Rayner-Cook frames that opportunity more broadly than the survey categories allow. "For investors with a longer horizon, the opportunity extends beyond Bitcoin into stablecoins, tokenisation and the businesses enabling that integration." He identifies agentic payments as an emerging application and sees a role for stablecoins and blockchain networks in supporting programmable payments continuously, with the investment question being where that activity generates sustainable revenues.

The timing, though, is early. "We're so nascent on tokenisation," Jain says. "It's like the top of the first inning, one batter in." Much of the growth so far has been in tokenised money market funds, which he regards as functionally another form of stablecoin. What has changed is that the destination is no longer contested: banks, exchanges, clearing houses and regulators have all signalled intent to tokenise what they custody, trade or settle.

Chart 8 Instruments traded or explored beyond spot and futures



> We're so nascent on tokenisation. It's like the top of the first inning, one batter in.
>
> Tushar Jain
> Managing Partner,
> Multicoin Capital

Mazouz supplies the constraint. “The investable universe shrinks the moment you institutionalise.” DeFi protocols are the clearest case: many are security-audited and technically sound, yet still sit outside what a fund can hold because the audited financials, segregated client assets and regulated entity a fund requires are not there.

THE REPORTED ALL-CLEAR

On operations, these managers are comfortable. 46% are very confident their infrastructure can support growing complexity over the next 12 to 24 months, a further 38% are somewhat confident, and none expressed any concern (Chart 10). Asked to name their biggest operational barrier, 31% said they do not face one (Chart 11).

Where a barrier was named, real-time position visibility across chains and venues leads at 23%, followed by lack of infrastructure support for complex instruments and cross-jurisdiction compliance at 15% each. Reporting and audit trails drew nothing at all. The problem is seeing where you stand in the moment, not what you file afterwards.

Wincent's Howard argues the survey has the ranking right. Round-the-clock trading is the most overstated challenge, he says, since “we can all put off sleep for a few hours” when conditions demand it. The harder problem is multiple venues, each with its own liquidity, margin calls, credit and lending terms and withdrawal policies, though that same fragmentation is also where the trading opportunities come from.

Chart 10 Confidence that operational infrastructure can support growing complexity

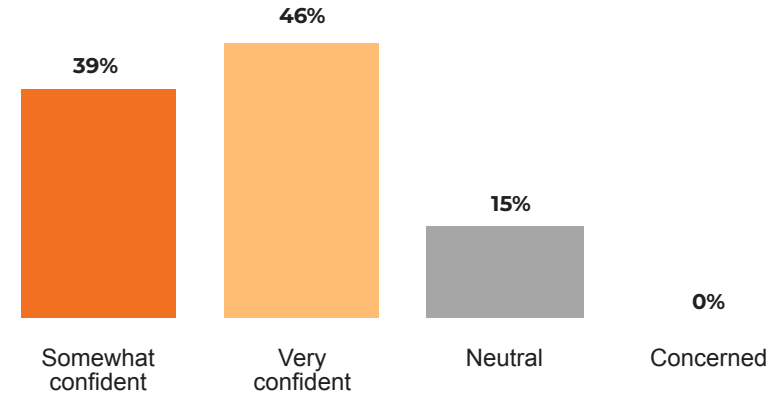
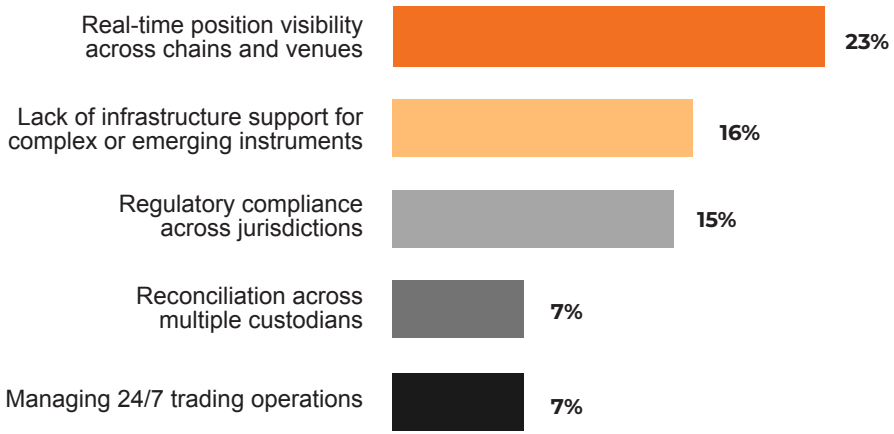


Chart 11 Biggest operational barrier to expanding digital asset activity





STRAIN ARRIVES WITH THE THIRD STRATEGY

Two cuts complicate that.

Every manager running or seriously considering three or more digital asset strategies named a specific operational barrier. Among those working across one or two, 44% said they face none (Chart 12). No manager with a wide book reported an unconstrained operation. Firm size does not explain this and neither does time in the asset class.

Confidence also runs inverse to experience. 43% of crypto-native managers described themselves as very confident, against 75% of traditional managers running digital assets as a significant allocation (Chart 13). The firms with the longest operational history here are the most guarded about their own infrastructure.

CONTINUOUS MARKETS, FRAGMENTED INFRASTRUCTURE

The interviews explain why breadth bites.

“Digital assets are not simply traditional markets with a different set of instruments,” says Rayner-Cook. “The operational challenge comes from the combination of continuous trading and fragmented market infrastructure.” Markets run without interruption, liquidity is split across venues and jurisdictions, and the consequences land on liquidity, collateral and counterparty exposure.

Prime brokerage illustrates the difference. Traditional managers can often access execution, financing and custody through integrated relationships. In digital assets, coverage varies by asset and venue. “Managers therefore need to take greater responsibility for connecting those functions and understanding where assets sit, how they are protected and how quickly collateral can be moved,” he says. Nor is there a market-wide close: reconciliation, maintenance and risk monitoring have to work while markets remain live, and custody adds requirements around private-key security and transfer permissions.

His conclusion is the one the survey reaches from the other direction. “These differences make operational capability part of the investment process. The challenge is not just accessing digital assets. It is building institutional-grade infrastructure that can operate at the speed and cadence of digital markets.”

Chopra puts the same requirement on the service providers. “Your fund admin capabilities have to be broader. They have to not just mark equities. This is a 24/7 asset class.”

THE CONSTRAINT OFTEN SITS OUTSIDE THE MANAGER

Mazouz argues the binding constraint is frequently not the manager’s own technology. “Most of the discussion is about a manager’s own systems. The bigger gap sits between the strategy and the service providers around it.” Valuation is the first test: if an administrator cannot independently price and reconcile

Chart 12 How number of strategies impact operational complexity

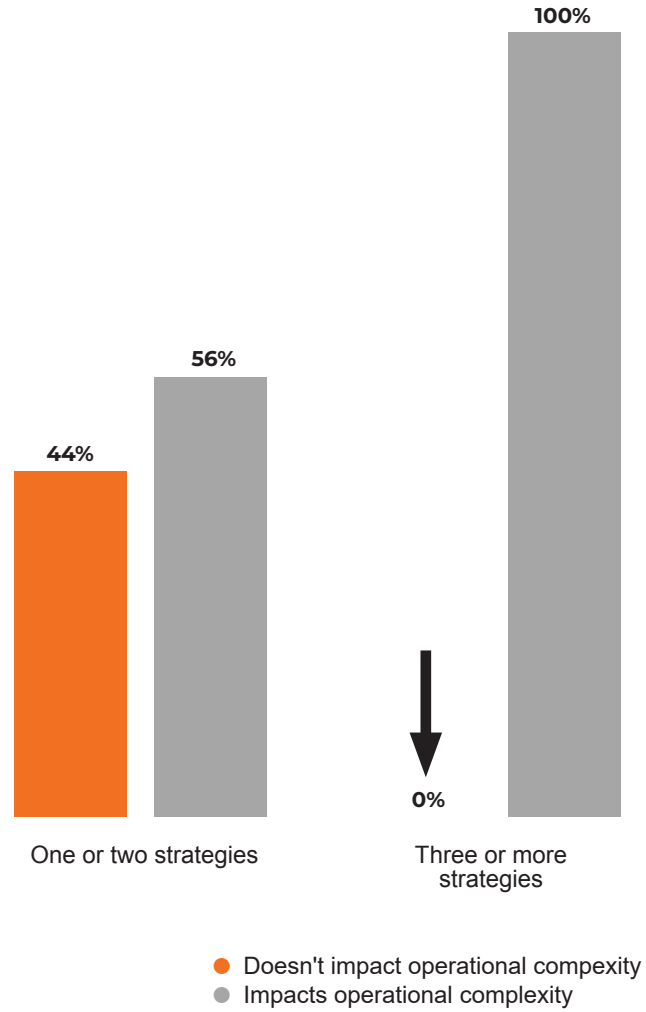
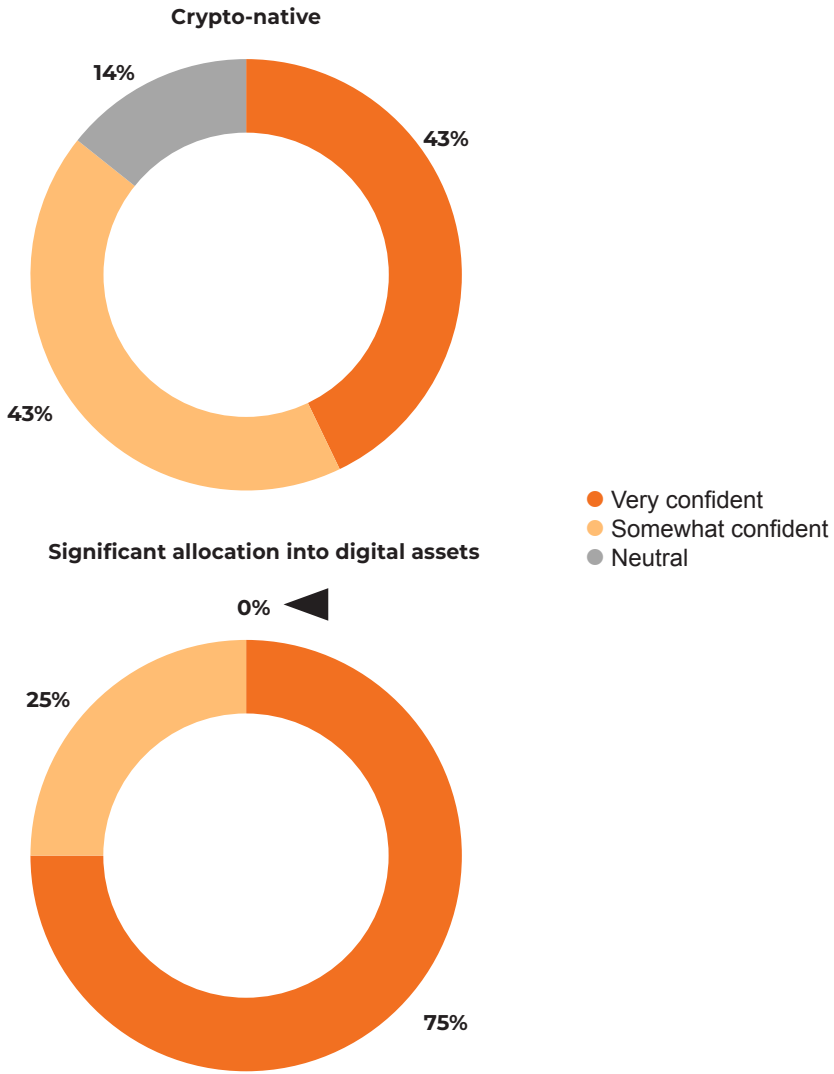


Chart 13 Confidence in operational infrastructure, by type of exposure



a position, the fund cannot hold it at scale however good its own systems are.

He adds a friction that rarely reaches the risk register. Evidencing source of funds on a wallet self-custodied for years is difficult at the standard an administrator requires. “The investor base most fluent in digital assets is the one compliance can least easily accept.”

Chopra adds banking, and is emphatic it has not been solved. “Banking is still tricky for crypto funds, even in 2026. Even with a better SEC and CFTC, you cannot discount that.”

WHY POSITION VISIBILITY TOPS THE LIST

Chopra traces the most cited barrier to unresolved custody questions rather than to data engineering. Where an asset is staked or deployed on-chain, the chain of parties with a claim on it is hard to establish. “The question for the investors: do you own the asset? Is it in your hands? Whose hands is it?” Self-custody fails the independence test, so balances sit with a third party, but that third party must also not have lent out or staked the asset. “Knowing the balances and where it sits, and knowing that it’s not rehypothecated, is an unknown.”

His answer is to stay inside what is qualified-custody eligible, with balances verified by the custodian, checked by the auditor and reconciled independently by the administrator. Cross-collateralisation across asset types remains difficult, though a small number of banks are beginning to address it.
Which is where operations stops being back office. “The strategy discussion is shorter now,” says Mazouz. “Time is spent on counterparty exposure, risk controls, who values the book and who verifies that valuation independently.”

Wincent's Howard puts it more directly. Track record gets a manager into due diligence, he says, but operational demonstration is what decides the allocation. Where allocators after FTX focused on custody and exchange selection, they now ask how quickly assets can be moved, how keys are controlled, who signs transactions and how assets are valued.

Rayner-Cook describes diligence extending beyond investment capability into governance, risk management, custody, counterparties, operational resilience and team depth.

OUTLOOK

The industry that emerges from 2026 will be smaller in manager count and more demanding in operational standard than the one that entered it. Jain notes competition is thinner than it looks, with many managers having pivoted to AI during the last bear market. Chopra estimates that of roughly 700 crypto funds, fewer than two dozen are genuinely institutional.

For the majority of hedge funds still on the sidelines, the barrier is not going to be dismantled by better technology, because for most of them it was never a technology problem. For the minority already in, the question is narrower and more urgent. Appetite is rising, the direction of the product set is settled, and tokenisation is the route almost everyone is taking. What is not settled is whether the operating model can carry a manager past the second or third strategy. The most confident managers are running the narrowest books, and those with the longest scars are the least confident of all.

Rayner-Cook's description of what comes next is the clearest statement of where the bar sits: Deep crypto-native expertise combined with institutional risk discipline, as digital assets and traditional finance converge. The industry has moved from exploring an asset class to building a business line. The distance between those two things is operational.



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